

## Chapter IV

# HISTORICAL BACKGROUND AND PRESENT DEVELOPMENT OF SMALL BUSINESS IN HUNGARY: STRONG PRESENCE IN THE PRODUCTION AND WEAK ROLE IN THE INNOVATION

Csaba Mako and Tibor Kuczi

## 1. INTRODUCTION

The legal conditions of free enterprise in Hungary were created in 1989. As legal and political restrictions were lifted, small businesses sprang up spontaneously. In only four to six years the stratum of small business owners was almost fully established, bringing economic transition in this sphere to conclusion. As a consequence that the transformation of this sector was virtually over by the mid-nineties. All subsequent events in the small business sector, for instance, numerical growth, changes in ratio among the various groups, etc., were influenced by market economy and national economic policy regulations (e.g. taxation, financial support system etc.).

Róna-Tas and József Böröcz (1997) examined three possible explanations for this unprecedented, rapid development of the small business sector in Hungary. The first is the so-called neo-institutionalist approach, which essentially means that after careful consideration of their future prospects people will decide to start their own business if the expected profit exceeds what they can make in their present situation. Consequently, the same number of people will decide to start a business as find it to their advantage. The authors call the second explanation cultural-historical. It means that the values and behavioural forms of the past determine how people decide under the present circumstances. According to the third explanation, with which the authors agree, the cultural and social capitals and cultural-historical experiences together shape the decision to become self-employed. Social and cultural capital among other things is referring to use various networks (e.g. family, former colleagues, friends etc.) to mobilise the necessary resource to launch and maintain business activity.

Szelényi and Kostello (1997) offer a more concrete interpretation, which also takes into consideration the characteristics of state-socialist economy. They start out from the same view as the cultural-historical approach, namely, that the appearance of small business owners, who represent the most populous group of players in the market economy, after the political change in 1989 was not without antecedents. After reviewing the huge range of literature on economic transition, they came to the conclusion that the transformation of the planned economy into a market economy may be divided different phases. They define the boundaries of the phases according to the

extent that the market penetrates the re-distributive economy. They stress that the post-socialist countries differ according to the extent of market penetration at the given time. For example, in China market penetration into the planned economy more or less corresponds to the situation that characterized Hungary in the 1980s, but the speed of the economic development in this Asian country is extremely high.

In the following, the development and the present situation of the small business sector will be discussed on the basis of Szelényi's and Costello's view. Its advantage is partly that taking past events into consideration makes it easier to understand the present situation (unless we prefer the neo-institutionalist approach and analyze small businesses simply in terms of expected gains), and partly that it allows for a comparison with the other post-socialist countries.

## 2. PHASES OF MARKET PENETRATION IN THE STATE-SOCIALIST ECONOMY IN HUNGARY

The authors describe three phases of market penetration: local market, socialist mixed economy, and market-oriented economy. (Here we shall discuss only the Hungarian situation, since it is the development of the Hungarian small business sector we want to understand.)

### 2.1 ROLE OF THE LOCAL MARKET

The characteristic of local markets is that the authorities permit the organization of the economy activities according to supply and demand regulations. In this case, entrepreneurs are only marginal players, while household farmers and small producers constitute the majority who sell their own and their families' work. The extra work involved in tending plants and animals around the house meant a chance to get ahead financially mostly in the case of the poor peasantry. They were prepared to undertake hard labour in order to save their children from having to do manual agricultural work, and, if possible, help them leave village life behind (Márkus 1979; 1980). Another approach stressed the role of the better-off peasant strata, which traditionally continue on independent farming (Szelényi 1988).

The period is characterized by a peculiar symbiosis that developed between the big companies' activities regulated by state-planning and the participants in the "second



economy” (Kertesi - Sziráczi 1989). The big companies realized that the performance of those who also carry on household farming and small-scale production is limited since they go on paid vacation and sick leave whenever the farm requires their attention, and the work they do on the farm determines the intensity of their work at the factory. This was advantageous for the companies probably because the members of this group were willing to work for very low wages as they supplemented it with the income from their farms. Under the conditions of the central wage-level control, the companies were able to use the money thus saved to pay for the specialists they that needed. Household farming and agricultural small-scale production--both considerably limited by the authorities--did not attract the better educated social groups whose members preferred to make a career at state-owned companies.

Entrepreneurship also appeared in other areas of the economy during this period. Following the economic reform introduced in 1968, the scope of activity of agricultural cooperatives increased, and a quasi-entrepreneurial activity started at their subsidiaries (Rupp 1983). Artisans and small retailers should also be mentioned most of them made a modest living and had low social prestige (Kuczi 1984). They comprised less than 4% of the working population in 1982.

The entrepreneurs of this period may be described as people whose behaviour was conditioned by the frequent changes in, and peculiar tides of, political tolerance. In spite of the insecurity, the participants of the second economy were characterized by pronounced entrepreneurial skills (Gábor - Galasi 1981), by a rational management of their work and any property they owned as a means to attaining prosperity (e.g. household farms, leased vacation houses, etc.), in addition to which they worked hard to keep their employee status. But due to the restrictions, instead of investing their gains, they spent it on consumer goods (Laky 1989).

## 2.2 HYBRIDIZATION OF THE STATE-SOCIALIST ECONOMY

The socialist mixed or hybrid economy\* may be clearly distinguished from the local market, the first phase of market penetration. It is characterized by a deeper penetration of the market into the economy, and by the replacement of the earlier isolated centres by more contiguous economic regions organized according to supply and demand. As of 1982, the setting up of various work organizations promoting

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\* In the following, we use simultaneously the term mixed or hybrid economy. This national indicates the combination of regulation by central planning and elements of market coordination.

entrepreneurial spirit was also permitted, and these organisations (e.g. Economic Working Associations) were better adjusted to the market conditions. According to some researchers, the appearance of the new forms of business set off enormous changes in the economy that ultimately led to the change in regime. Nevertheless, it would be better advised to be cautious in the interpretation of the figures, since, notwithstanding the new opportunities, the expected spectacular development of the small business sphere failed to come about. In the eighties, the number of one-man businesses and partnerships remained below even the expectations of economic policy framers. In 1982, there were 94,000 units, which increased by 35 000 new, small organizations just prior to the time preceding the change in regime (12,000 were the new type of businesses, or partnerships, and 23,000 were conventional businesses).

Teréz Laky (1989) gave a graphic description of how the number of members or employees of small business changed and the extent to which it remained below the number specified by law. For instance, the laws in force at the time stated that small cooperatives could have a maximum of 150 members, but on average they had 45 members each in 1986. Even the very popular Economic Working Associations had far fewer members than the top limit allowed by the law, which in this case was 30, while the actual average number was 6 (the situation was similar in case of the other business forms).

At the time it seemed that the expected economic growth failed to take place because the participants in the second economy had no confidence in the honesty of policy makers, and, therefore, did not take advantage of the opportunity to legalize their activity.

The other explanation for the lack of national economic performance was the basically unchanged character of the macro-institutions of the country (e.g. ownership structure, role of the political party in the macro-economic decisions, lack of basic changes in the structure and mechanisms in the dominant large-state firms etc.)

Although large-scale economic improvement did not come about, the social composition of the small business owners changed profoundly and became basically what it is today.

While in the sixties and seventies it was mostly the less educated who entered into the small-business activities in the form of second economy, in the eighties running a small business became an attractive prospect for skilled workers as well. In fact, according to a 1988 survey (Kuczi and Vajda 1991), most of the small business owners with an elementary school education (eight grades or less) were forced out of business (their



ratio was 9%, though they comprised 37% of the active earners).

Small business owners with higher education were a new phenomenon in the eighties. Previously, only a few eccentric college or university graduates tried independent entrepreneurship. The results of the above-mentioned 1988 survey show that 20% of the non - agricultural entrepreneurs (compared with 14% of the active earners living in cities) had higher education. The distribution according to educational level within the various business forms shows an even more characteristic picture. It was no longer unusual to find college and university graduates working in small-scale industry, an already conventional business form, but their ratio among the directors of Economic Working Associations was a surprisingly high (40 %). This figure indicates that in the eighties there appeared a new group of entrepreneurs, who believed that independence offered better opportunities for realizing their professional ambitions than working for a big company. However, their connections at their former workplaces remained, which made possible the organization of certain small business groups into networks that exist to date. It is a good indicator of the change that the number of Hungarian Socialist Workers Party (CP) members among the independent entrepreneurs was higher than average (Róna-Tas 1997). The new type of businessman of the eighties combined his above the average professional knowledge, his contacts at his former workplace and political loyalty in building up his business, or, in poor years, in ensuring its survival. (As a reminder, in the seventies it was typically the less educated, occupying a peripheral position at their workplace, who entered the second economy.) This special combination of knowledge, connections, and political loyalty proved exceptionally profitable for some, a few of whom became owners of privatised state firms in the 1990s.

Similar processes took place in agriculture. Already at the end of the seventies there appeared among the household farmers and agricultural small producers a more ambitious group of producers who were mostly skilled workers and who, usually via the cooperative, moved beyond the boundaries of the local market. Its members came to play a prominent role in the eighties (Kovách 1988). Greenhouse gardening, poultry farms, pig farms accommodating 30-150 animals became the model for household farms. After the collapse of the state socialist political and economic system, the managers of cooperatives and the members of this group became agricultural entrepreneurs (Andor - Kuczi 1997).

In addition to the development of the stratum of full and part-time businessmen and "would be" entrepreneurs also emerged in large numbers during this period. Economic Working Associations were formed in big state-owned companies; their members were allowed greater freedom and they carried out a more rational management of company

resources, their own working time and spare time, which often proved preparation to real entrepreneurship. But this was not typical. These associations represented mainly a new organizational framework for the redistribution of overtime work and pay within the company (Stark 1989). Even so, their influence should not be underrated, since it involved a clearer definition of the interest-based relations within the company. It is easy to see the significance of this if we consider that before the eighties the formal organizational structure, the trade union, the party organization, and informal networks of relationships formed separate, uncoordinated divisions within big state companies often obscuring the differences in interest and power relations (Héthy - Makó 1972).

It helped the organization and operation of Economic Working Associations that the company elite was characteristically pro-market, though in concrete instances it may have had to confront the interest-based operation of the Associations. The fact that the elite was pro-market did not prevent it from maintaining good relations with the power centre, which was important in secure extra financial resources for the company (Szalai 1989).

The gap between the economic elite and small business owners began to close in the eighties. Earlier, a significant social distance separated the directors of big companies and the "self-employed" who tended animals or the garden or worked in the fields from morning till late in the evening in the hope of making a better life for their children. By the time immediately preceding the change in regime there developed a group of business owners (mostly the directors of small organizations) who made frequent trips abroad, were highly qualified and prospered (Kuczi - Vajda 1991). The social distance between this group and the economic elite was no longer unbridgeable. This notwithstanding, they did not come to form an alliance on the eve of the change in regime, and in time the political elite's interest turned increasingly toward the big foreign investors.

### 2.3 FAST DEVELOPMENT OF SMALL BUSINESS IN THE EMERGING MARKET ECONOMY

Due to the fundamental changes both in the ownership and the size structure of the Hungarian economy from the end of 1980s, the number of registered businesses significantly increased. For example, the number of registered firms between 1990-1995 doubled and in 1995 reached one million. From this time their speed of growth slowed down significantly. Table 1 indicates the forms and growth of the business organizations by their legal-status.



**Table 1 Changes in the number of businesses organization by their legal-status (1990-97)**

<b>Year</b>	<b>Self employed</b>	<b>Business partnership</b>	<b>Co. Ltd.</b>	<b>Joint Stock Co.</b>	<b>Cooperative</b>	<b>Total</b>
1990	387 340	n.d.	12 159	519	7 134	407 152
1991	510 459	n.d.	41 206	1 072	27 232	559 152
1992	606 207	n.d.	57 262	1 712	7 694	672 875
1993	688 843	67 301	72 897	2 375	8 175	842 083
1994	778 036	89 001	87 957	2 896	8 252	969 429
1995	791 496	102 560	102 697	3 186	8 321	1 011 945
1996	745 247	127 725	122 044	3 536	8 362	1 049 590
1997	659 690	140 043	143 109	3 929	8 330	998 264

The number of registered enterprises, total approximately 400,000 in 1990, grew more than two and a half-fold in a decade. The overwhelming majority (95%) were self-employed businesses, the number of which doubled by the mid-nineties, then fell back somewhat due to recession and unfavourable regulations. By the end of the decade it exceeded the 1990 level by just more than 70%. By 2000, more than one third of the registered businesses were partnerships.

Research findings show that in the mid-nineties approximately two thirds of the registered companies were actually in business (since 1995, the researchers' findings are used in statistical records). Today, 75.5% of the 1.1 million registered companies are actually in operation. Of course, the ratio of actual and nominal companies differs according to company size. The fact that big companies operate can be taken for granted. But it is also a fact that 30% of the small companies without employees do not carry on any activity; they exist only to enable the owners to pay less tax on income earned in other areas.

### 3. SIZE STRUCTURE OF BUSINESS ORGANIZATIONS IN COMPARATIVE PERSPECTIVE

Comparing the size of Hungarian companies with international data, we find that the average number of employees in micro, small, and medium-size businesses and the ratio of employees in the individual groups do not considerably differ from EU averages.

***The Table 2 compares the size structure of the Hungarian firms with the EU (15) countries (1998)s.***

Country	Micro-firm (< 9 person)	Small firm (10-49 person)	Medium-sized firm (50-249 person)	Large firm (≥250person)	Average firms' Size (in number)
	Share of the firms in per cent				
Austria	87	10	2	0	11
Belgium	95	4	1	0	5
Denmark	88	10	2	0	8
United Kingdom	95	4	1	0	5
Finland	94	5	1	0	5
France	93	6	1	0	7
Greece	97	3	0	0	3
Netherlands	88	10	2	1	12
Ireland	90	8	2	1	10
Luxemburg	84	12	3	0	13
Germany	88	10	1	0	8
Italy	95	4	0	0	4
Portugal	93	6	1	0	4
pain	95	4	1	0	5
Sweden	93	6	1	0	7
EU (15)	93	6	1	0	6
Hungary (1999)	96	3	1	0	4

Source: Zoltan Roman (2002) Small and medium-sized enterprises in the Hungarian Economy (State affairs and international comparison), Budapest: *Central Statistical Office*, p. 41

According to the latest EU Report (The European, 2000), the overwhelming majority (99.8 per cent) of business organisations belong to the category of small and medium sized firms. Hungary belongs to the category of countries in which micro-firms are dominant. An average-size firm has 6 employees in the EU and 4 in Hungary, and the size structure of the business organisations in Hungary is similar to the Greece and Italian firms. Averages below the EU average are shown below in Table 3.



Table 3

Countries below the EU average firms' size structure

Country	Average size of the firm (number of person employed)
Greece, Island	3
Italy, Portugal, <u>Hungary</u>	4
Belgium, UK, Finland, Spain	5
Norway	6
Denmark, France, Germany, Sweden	7-8
Ireland, Switzerland	10
Austria	11
Netherlands	12
Luxemburg	13

Source: Zoltán, Román (2002) Op.cit.: 43

In the light of this data, the mainstream view on the Hungarian situation is the following: "The employment size structure in Hungary resembles the EU average, that is, the graph shows an almost perfect sandglass form. What distinguishes the Hungarian structure from the structure found in EU countries is the difference in the ratio of small and medium-size businesses: in Hungary much fewer people work in small than in medium-size businesses, while in most EU countries the situation is the reverse" (Fülöp-Gyetvai-Juhász, 1999).

However, contrary to above opinion, according to the latest comparative research on small businesses, the performance of the medium sized firms is rather strong and similar to the EU. For example, Hungarian firms employing less than 50 persons are producing 42 per cent of the value-added, medium sized firms (50-250 person) are producing 15 per cent and the large firms (over 250 persons) 43 per cent of the value-

added produced in the country. The average performance of these size-category of firms in the EU (15) countries is as follows: 29 – 19 – 52 per cent (Hámor, 2002:16).

There are significant differences not only between the Hungary and the EU members states are significant, but we may find visible differences between the post-socialist economies too. For example, the rate of micro-firms (employing less than 10 persons) is higher than 90 % in each country except Estonia. (In Estonia: 82.1 %, in Slovenia and Poland: 94 – 95 %, in Czech Republic and Hungary 97 %.

#### 4. RESOURCES NECESSARY TO SET UP BUSINESS: KEY ROLE OF SOCIAL CAPITAL

Typically, the founders of small businesses rely almost exclusively on their own resources. By resources we do not mean primarily financial or property capital, since these played a rather small part (perhaps because at the beginning of the decade people had an excessive fear of taking risks in a market they knew very little about), but the person's own work and the work of acquaintances, the family car and garage or in other word "social capital" paid an extremely important role. This, among others, explains why only an extremely small group of people was capable to create big firms. It also explains the very low ratio of medium-size companies, their very limited capital and employment potential compared with the group of big companies based mostly on multinational or foreign ownership. The foreign affiliates generate the more than 70 per cent of the manufacturing export. The share of foreign affiliates in the industrial R and D is over 70 per cent in Hungary and over 30 per cent in the Czech Republic (OECD, 2001: 112).

As we have seen, at the beginning in Hungary the overwhelming majority of the business was represented by "companies" without employees. The nineties were characterized by a slow growth in size, due partly to the increase in the ratio of micro-firms at the expense of "companies" without employees.

(In view of the small size of the business, the owners rely mostly on family resources in carrying out their activity. This means primarily the use of labour and expertise "on hand." According to a survey (Czakó et al. 1994), in 60% of the cases, the owner's spouse also takes part in some form in the business.)

As we have seen, the money accumulated over the past decades had little part to play in starting the business, but it has considerable weight in preserving liquidity. The savings of family members are also an important source of cash. At the beginning of the nineties, one fourth of the small business owners borrowed from their relatives or



friends, but as the loan conditions of bank credits became harsher the number of those who borrowed from people in their immediate environment doubled.

The family plays an important role in starting and running the business, though people who have no other means of support may easily get into trouble. Owners who can utilize, in addition to (or instead of) their family connections, their connections in the market or in their former jobs have a better chance of avoiding failure.

The other group of self-employed comprises those who, under duress, started a "business partnership" or took out an entrepreneurial permit. They carry on the work they did as employees, but formally they are self-employed businessmen.

Finally, it is important to mention that there is a "micro-loan" system designed for the small and medium size business sector. Under this initiative until 6 million bank-loan is available with a favourable interest rate. There is a new taxation package under preparation by the new socialist-liberal coalition to simplify the present taxation practice by introducing a "unified taxation bracket" (e.g. firms have to pay 15 or 20 % tax on their turnover and they are free to use the remaining resource)

## 5. WEAK NETWORKING DOMINATES RELATIONS AMONG SMALL BUSINESS OWNERS. STRONG NETWORK SHAPED BY REGULATION BASED ON RECIPROCITY RELATIONS IS EXCEPTIONAL

One of the main characteristics of socialist mixed economy mentioned was the preponderance among business owners of better educated groups who had worked at one or more big companies and, therefore, had business experience and, more importantly, connections. Given their knowledge of how big companies operate (Whitley 1991) and their connections, they were able to join a production network through their former employer. (But past employment may also have an opposite effect. Magdolna Leveleki (Leveleki 1999) reported that a part of those who became self-employed by necessity-- i.e. because of layoffs --gave up their business as the chances of getting a job improved, preferring to start to work as employees.)

Although the supplier program launched in the second half of the nineties was not successful in every respect, there are definite signs of network formation. Specifically, the share of Hungarian companies as suppliers in the production of multinational firms operating in Hungary rose from 16% to 21% by the end of the 1990s.

After reviewing the data on suppliers, several authors concluded that the level of

integration of the Hungarian economy is still low( Fülöp – Gyetvai - Juhász (1999). An international survey on the regional innovation system at the Székesfehérvár-region – where the activity of the foreign affiliates extremely intensive - shows the same thing, namely, that multinational firms use the services of their own, earlier established network, and only rarely turn to small companies that operate in the region (Makó – Ellingstad, 1999.)

According to other research, the fact that the networks of multinational companies are closed does not, by itself, explain the weak integration of small business owners. It is not yet verified that the Hungarian small business owners are incapable of performance according to the required standard, and they often fail to observe delivery deadlines. Instead of that, the main problem is that Hungarian small businesses do not document their activity, which makes the determination of responsibility in case of default a lengthy procedure or even impossible (Szalavetz 2001).

There is another possible development path for network creation. Case study based investigation in special - various ethnic groups dominated - micro-region demonstrated well the important regulatory function of the local community. Research findings showed that those business owners were able to join a group of suppliers (for instance, subcontract to a big hotel construction), whom the local professional community rated high. It was not the commissioning party that determined which of the potential partners would be suitable and examined their professional and organizational competence. The decision was left to the local community. What happened was that the big company commissioned the representative of the local business elite who, relying on local public opinion as to who the trustworthy professionals are, organized the “network” of suppliers. Regardless of how they are organized, networks are the most important condition of entry of small businesses into the EU market. This market is not open insofar as small businesses cannot directly appear, since competition is between networks. For this reason the crucial question concerns the ability of Hungarian small business owners to form networks. Today there are dozens of businesses that deal with network organization (accountants, law offices, quality supervisors and “network-brokers”, technical advisors, IT service suppliers etc.), but very little is known about the cultural conditions that would make the cooperation of small business owners possible.



In relation to this networking, it is necessary to call attention to the regionally unequal distribution of small-business in the Hungarian economy. The density of entrepreneurship is measured the following way: by the number of small business per 1000 inhabitants. In the New Associate States (NAS), the density of enterprises is listed below (March 31st 2001)\*:

(1) Czech Republic:	189
(2) Hungary:	105
(3) Poland:	80
(4) Slovenia:	70
(5) Estonia:	40

In Hungary, the indicator of business organization per 1000 inhabitants is showing the following pattern: the highest concentration is found in the Central Hungarian Region (and in Budapest): 40.7% (Budapest: 30.9%). Table 4 summarizes the regional distribution of business organizations by size.

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\* Román, (2002) Op.cit.: 45

*Table 4 Regional distribution of firms by size category in Hungary (June 30<sup>th</sup> 2001) (%)*

Regions	Micro-firms		Small firms	Medium sized firms	Large firms	Total
	0 employee	1-9 person	10-49 person	50-249 person	>250 person	
Central Hungary, within this region: Budapest:	37.8	40.9	38.3	34.7	35.4	38.8
	27.7	29.6	28.6	26.8	25.6	28.0
Central Trans-Danubia	10.8	9.4	10.0	10.1	12.9	10.4
Western Trans-Danubia	10.2	9.5	99.9	10.3	14.0	9.9
Western Trans Danubia	10.2	9.5	9.9	10.3	14.0	9.9
Southern Trans-Danubia	9.4	8.5	8.4	9.6	7.6	9.1
Northern Hungary	9.2	8.5	9.1	8.9	9.6	9.0
Northern Great Plain	10.9	11.5	11.5	12.5	10.5	11.1
Southern Great Plain	11.6	11.7	12.8	14.0	10.5	11.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

*Source:* Roman, Op.cit.: 53



## 6. INTEREST REPRESENTATION OF SMALL FIRMS IN THE HUNGARIAN LABOUR RELATIONS SYSTEM

In the process of network creation of small businesses, the interest representative organisations may play important role. In this respect, it is worth mentioning the role of the main employers' associations in the labour relations system.

Before presenting the composition of employers associations of the country, it is necessary to present the brief history of the Hungarian labour relations system.

Pluralization and segmentation of the interest representative associations characterised the of the country's labour relations system from the end of 1980s until the present. From the employees' side, six major trade unions are participating in the activity of the Interest Reconciliation Council (IRC), which is a national level tri-partite forum of the main labour relations partners. This institution has various roles, one being to set of the most important one being to set up the level of the annual minimum wage. On the employer's side the following organisations are playing key roles in the work of IRC.(Héthy, 2000:17):

-*Union of Agrarian Employers*, this organisation represents major agricultural corporations, state farms, the National Association of Farmers and agricultural research and education (500-600 organisations with legal entity and several thousand private farmers).

-*National Federation of General Consumer Cooperatives (AFEOSZ in Hungarian abbreviation)*, this organisation primarily represents the area of those operating in agricultural product purchasing and retail trade (285 cooperatives with 800 000 members and 45 000 employees).

-*National Association of Industrial Corporations (IPOSZ in Hungarian abbreviation)*, this association represents the interests of nearly 120 000 small craftsmen engaged in about 300 types of activities. Currently, the number of its member organisations is 300.

-*National Confederation of Traders and Caterers (KISOSZ in Hungarian abbreviation)*, this federation is the employers' organisation of private retailers and caterers (its membership comprises private entrepreneurs, some 20 000 people).

-*Hungarian Industrial Association (OKISZ –Magyar Iparszövetség, in Hungarian abbreviation)*, this association is the employers organisation of medium-sized, and, in part, smaller and larger business (approximately 3 000 companies and 300 000 employees). It is a member of the International Cooperatives' Association and the European Medium and Small Enterprise Union.

-*National Federation of Agricultural Cooperatives and Producers (MOSZ, in Hungarian abbreviation)*, this is an employers' association of 1 5000 cooperatives and about 300 companies operating in agriculture and related activities (4000 000 active and 570 000 retired members of the cooperatives).

-*National Association of Entrepreneurs (VOSZ in Hungarian abbreviation)*, this association represents business based on private capital (100 000 entrepreneurs). In 1991, as the representative of Hungarian employers, it was accepted as the first eastern European member of the International Organisations of Employers.

-*National Association of Strategic and Public Utility Companies (STRATOSZ in Hungarian abbreviation)*, this association is not a member of the employers' side of the National Labour Council (formerly the Interest Reconciliation Council). In 1996 it was accepted as a member of Centre Européen des Entreprises à Participation Public (CEEP), the EU level employers' organisation representing public sector organisations.

-*Federation of Hungarian Industrialists (MGYOSZ, in Hungarian abbreviation)*, this organisation represents, primarily, large private enterprises (it has some 2 200 member companies).

-*Hungarian Employers' Association (MMSZ\* in Hungarian abbreviation)*, this

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\* These two organizations united in 1998.



organisation represents, via branch (trade) and territorial member associations, 5-6 000 business organisations which employ a total of nearly 1.1 million people.

In relation to the above list of employers' interest representative associations, it is necessary to note the following. Firstly, among 10 associations organisations are dealing with the interest representation of small and medium sized business such as:

- Union of Agrarian Employers,
- National Association of Industrial Corporations (IPOSZ),
- Hungarian Industrial Association (OKISZ),
- National Association of Entrepreneurs (VOSZ)

Secondly, the statistics on membership – according to labour relations experts – is unreliable: the heads of various associations have a vested interest in reporting higher membership to demonstrate the strength of their organisations. We have to note, that in spite of the significant development of these associations, they still are seeking their appropriate role in helping their members. The ambiguous definition of their roles is summarized by the a well-know expert of the Hungarian labour relations: “During the period of political change in the late 1980s due to the lack of legislation on, and legal definition of, employers' organisations, almost all business associations were acknowledged as employers' organisations once they declared themselves as such. However, the extent to which craftsmen, retail traders, agricultural small-scale farmers or cooperatives can be qualified as employers is rather doubtful. Another issue is the extent to which these organisations uniting Hungarian entrepreneurs and companies act as employer representative bodies and the extent to which they function as representatives of economic interest groups. Even though there is a lack of more profound information about the Hungarian employers' associations currently in existence, it can be said that only some appear to meet the general, internationally accepted criteria of such associations – these are the Hungarian Employers' Association, MMSZ, MGYOSZ and VOSZ” (Héthy, 2000:17-18).

## 7. SMALL BUSINESS AND THE e-ECONOMY IN THE CENTRAL EUROPEAN REGION: DIFFERENCES BETWEEN EU (15) AND NAS (3)

In the last decade there has been a growing interest in Europe in understanding and locating the position of SME in the fast developing e-economy, in which the work or service are created and delivered by the use of Information and Communication Technologies (ICT). Recent experiences of one of the largest employer survey carried out in the EU (15) countries and the Czech Republic, Hungary and Poland are the followings: the larger the size of the firm, the more intensive the diffusion of e-work can be. Results concerning the Eastern Central European countries participating in the survey in comparison with the EU (15) and within this group of countries are summarized in table 5.

**Table 5** *Differences in e-Work Diffusion (%) of Firms by Size*  
(“More than 200 employees” category minus “50-200 employees”)

Region/count ries	Sectors of Economy				
	Manufacturing	Trade/transport/ telecommunication	Business services	Public administration/ education/health	Total
<b>Central- Eastern- Europe</b>					
Czech Republic	-9.7	17.9	--	--	2.7
Hungary	20.0	24.7	13.8	7.6	13.6
Poland	6.3	-7.1	-17.1	14.1	5.0
<b>EU (15) and NAS (3) average</b>	<b>4.4</b>	<b>6.4</b>	<b>1.1.</b>	<b>-0.8</b>	<b>2.1</b>

Source: Altieri, Giovanna-Birindelli-Bracaglia Pietro-Tartaglione Clemente (2002) Southern Europe Report), Rome: IRES, (Emergence Partners Meeting, April 18, 2002.) Leuven, p. 11.



Evaluating the diffusion of e-work by company size, the following interesting contrast was found between the EU (15) and the New Associate States (NAS)\*: the diffusion of e-work within the EU (15) countries is rather balanced between the firms employing 50-200 (41.7%) and more than 200 persons (44.4%). At the same time, in the NAS (3) the larger companies have stronger e-work diffusion (71.9%) in comparison to the smaller ones (64.5%). On the whole, the dominant pattern shows that the larger of the size of the firm, the greater the use of e-work will be, but among the former socialist economies, we can find significant differences: due to the low share of micro-firms in the Polish sample, the slightest differences in the diffusion of e-work by company size were found in this country: 3.6 % in favour of the larger firms (employing more than 200 employees). In the Czech Republic the difference was 8.5%, while in the case of the Hungarian firms it was 21.1 % in favour of the large firms. (Makó-Keszi, 2002) In the case of Hungary, other surveys support the validity of the finding of the EMERGENCE project. According to a survey conducted in the last quarter of 2001, almost 100% of the large firms are connected to the global net and only 71% of the small firms have internet access. This survey explains the significant differences in internet use by the relatively weak “e-orientation” of small business owners and the low priority of training. It is interesting to note that even in the category of medium-sized and large firms, only 4% have “internet-related strategy”, while about one fifth (18.5%) of them have a plan to develop an internet based strategy. Also one fifth of them is planning to survey the opportunities of “e-commerce” in the near future.

## CONCLUSIONS

It is difficult to make conclusions on multidimensional (e.g. social-economic historical, resources, regional aspects, labour relations and emerging e-economy) development of the small and medium size business in Hungary. However, it is worth calling attention to particular features of this development. Firstly, it is necessary calling attention to

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\* The NAS countries participating in the survey entitled “Estimation and Mapping of Employment Relocation in a Global Economy in the New Communication Environment” (EMERGENCE), are as follows: Czech Republic, Hungary and Poland.

cumulative and evolutionary character of entrepreneurship. The so-called “second economy” in agriculture, construction and service sector was one and the “Economic Working Associations” a second antecedent to the formation of entrepreneurial skill and value in Hungary. Secondly, the privatisation and the re-structuring of the large state-owned firms under the pressure of high unemployment at the early nineties created a “boom” in small businesses, which peaked in the middle of 1990s. Thirdly, in the last decade of the 20th century, the development of small and medium size businesses followed the pattern of the mature capitalist countries but they are still visible differences identifiable both with EU (15) and the New Associate States in Central Eastern European (CEE) region. In this respect, it is necessary to call attention to the relatively weak position of micro and small firms in the fast growing e-economy. However, even in this case, we may expect both similar and different patterns of development among business organisations operating in the CEE region. It would be one of the most interesting issues for further studies to identify the opportunities opened by the new information and communication technologies to broaden networking activities of the small business firms. In this respect, it is an extremely challenging task to find answer on the following question: which social-cultural regulations of economic behaviour (e.g. trust, business moral, community, professional values etc.) may facilitate or constrain the developing of the combination of competition and cooperation among the actors in this significant sector of the economy.



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